

China Trade Quarterly

Domestic Trade

We project a 5.5% growth for the Chinese economy in 2023

China's economic growth slows further to 2.9% yoy in 4Q22

Growth in retail sales turns negative in 4Q22

Central Economic Work Conference lays out economic agenda for 2023

Foreign Trade

China's exports down 6.8% yoy in 4Q22 amid global economic slowdown

Rise in FDI indicates confidence in China's long-term prospects

China cuts import tariffs on over 1,000 products

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Part One: Domestic Trade

A. Recent developments

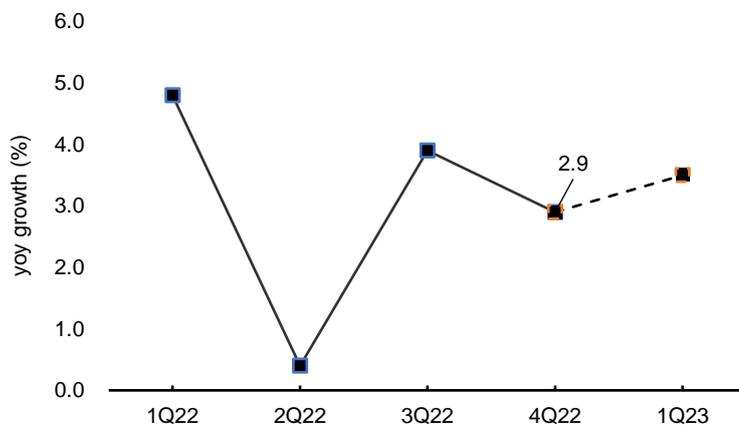
1. China's economic growth slows further to 2.9% yoy in 4Q22

China's GDP growth eased further to 2.9% yoy in real terms in 4Q22 (see exhibit 1). China faced a huge wave of COVID-19 infections starting in November, but economic activities rebounded over the last couple of weeks of December, pushing GDP growth in the quarter above market expectations. Overall, China's nominal GDP amounted to 121.0 trillion yuan in 2022, up by 3.0% in real terms.

We predict that China's real GDP growth will pick up to 3.5% yoy in 1Q23. While consumer spending will lead the economic rebound in the quarter, growth in industrial production is likely to remain sluggish, as a large share of migrant workers returned home for the Chinese New Year this year.

Exhibit 1: China's real GDP growth and forecasts, 1Q22 to 1Q23

FY22	1Q22	2Q22	3Q22	4Q22	1Q23F
3.0%	4.8%	0.4%	3.9%	2.9%	3.5%



Source: National Bureau of Statistics, PRC

We predict that China's GDP growth will pick up to 3.5% yoy in 1Q23. While consumer spending will lead the economic rebound, growth in industrial production is likely to remain sluggish, as a large share of migrant workers returned home for the Chinese New Year this year.

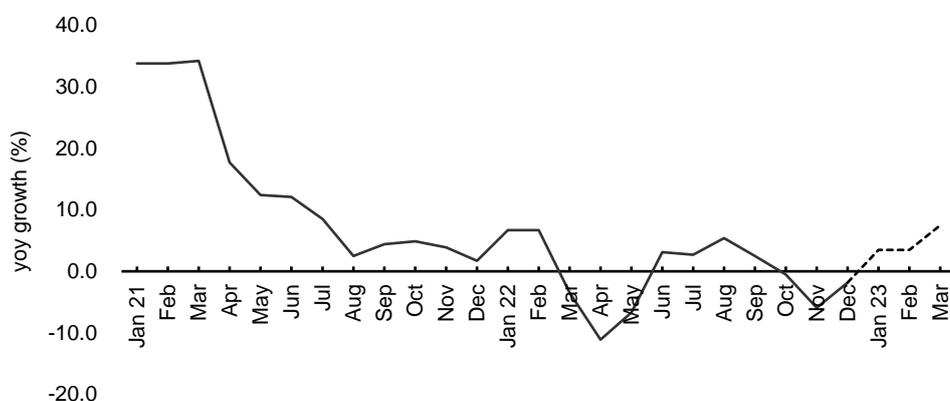
We project a 5.5% growth for the Chinese economy in 2023, as the ending of the zero COVID-19 policy has unleashed a flood of pent-up demand on the economy.

2. Growth in retail sales turns negative in 4Q22

China's total retail sales of consumer goods declined by 2.7% yoy in 4Q22. The drop was less severe than expected as retail activities started to improve in late December with many parts of China passing the peak of COVID-19 infections. In 2022, China's total retail sales of consumer goods reached 44.0 trillion yuan, down by 0.2% yoy (see exhibits 2, 3 and 4).

Exhibit 2: China's total retail sales, year-on-year nominal growth and forecasts, January 2021 to March 2023

FY22	Jan-Feb 22	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
-0.2%	6.7%	-3.5%	-11.1%	-6.7%	3.1%	2.7%	5.4%	2.5%	-0.5%	-5.9%	-1.8%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, July to December 2022

mom growth (%), seasonally adjusted

	Jul 22	Aug	Sep	Oct	Nov	Dec
Total retail sales	-0.07	-0.35	0.24	-0.79	-0.08	-0.14

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2021 to 2022

Nominal growth, yoy (%)	FY21	1Q22	1H22	1-3Q22	FY22
Total retail sales	12.5	3.3	-0.7	0.7	-0.2
- Goods	11.8	3.6	0.1	1.3	0.5
Sales by enterprises above designated size	12.8	5.7	1.4	3.5	1.9
Online sales	12.0	8.8	5.6	6.1	6.2
- Catering services	18.6	0.5	-7.7	-4.6	-6.3

Source: National Bureau of Statistics, PRC

We predict that China's retail sales will grow by 5.0% yoy in 1Q23, as retail activities have quickly improved after COVID-19 infections peaked in most parts of China in late December 2022.

We expect an 8.0% yoy growth in retail sales in 2023, boosted by a recovery in the COVID-19-riddled retail sectors such as catering and travel retail.

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2021 to 2022

Nominal growth, yoy (%)	FY21	1Q22	1H22	1-3Q22	FY22
Grain, oil and food	10.8	9.3	9.9	9.1	8.7
Beverages	20.4	11.8	8.2	6.9	5.3
Tobacco and liquor	21.2	11.8	6.7	4.7	2.3
Garments, footwear, hats, knitwear	12.7	-0.9	-6.5	-4.0	-6.5
Cosmetics	14.0	1.8	-2.5	-2.7	-4.5
Gold, silver and jewellery	29.8	7.6	-1.3	2.2	-1.1
Commodities for daily use	14.4	6.6	1.3	2.0	-0.7
Home appliances & audio/video equipment	10.0	5.9	0.4	0.7	-3.9
Traditional Chinese and Western medicines	9.9	9.1	9.7	9.4	12.4
Cultural and office appliances	18.8	10.6	5.7	6.8	4.4
Furniture	14.5	-7.1	-9.0	-8.4	-7.5
Communication appliances	14.6	4.3	-0.6	0.2	-3.4
Petroleum and related products	21.2	19.7	14.2	14.0	9.7
Automobiles	7.6	-0.3	-5.7	0.4	0.7
Building and decoration materials	20.4	3.8	-2.9	-4.9	-6.2

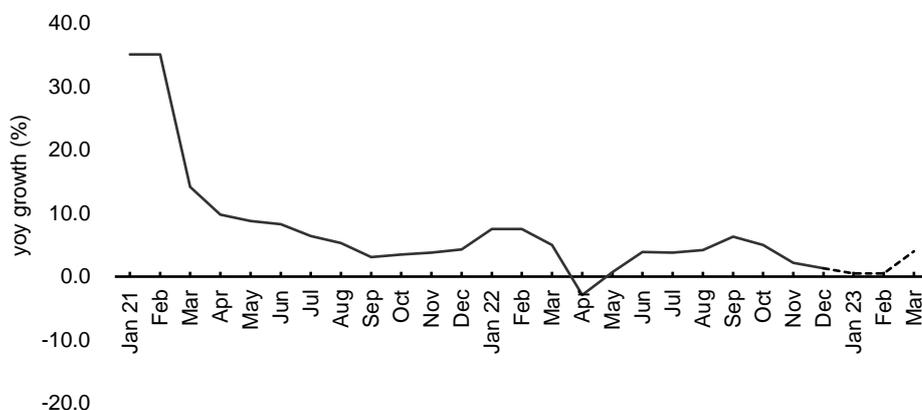
Source: National Bureau of Statistics, PRC

3. Growth in industrial production slows further in 4Q22

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size¹, rose by 2.7% yoy in 4Q22 (see exhibit 6). Overall, China's industrial production expanded by 3.6% yoy in 2022.

Exhibit 6: China's industrial production growth and forecasts, January 2021 to March 2023

FY22	Jan-Feb 22	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3.6%	7.5%	5.0%	-2.9%	0.7%	3.9%	3.8%	4.2%	6.3%	5.0%	2.2%	1.3%



Source: National Bureau of Statistics, PRC

¹ 'Industrial enterprises above designated size' refer to industrial enterprises with annual revenue of 20 million yuan or more.

In 4Q22, retail sales of traditional Chinese and Western medicines grew strongly as people stocked up medicines amid the COVID-19 surge. Moreover, car sales also picked up as consumers rushed to make purchases before the end of state subsidies and tax cuts by year-end.

After COVID-19 infections peaked in late December 2022, the disruption to industrial production has faded. However, unlike the previous two years, a large share of migrant workers has travelled back home for the Chinese New Year this year, which will keep industrial production growth low at 1.0%-2.0% yoy in 1Q23.

4. Fixed asset investment grows 5.1% yoy in 2022

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) registered 5.1% yoy in 2022 (see exhibit 7). Overall, China's FAI (excluding rural households) amounted to 57.2 trillion yuan in the year.

Exhibit 7: China's FAI (excluding rural households) growth, July to December 2022

Year-to-date, yoy growth %	Jul 22	Aug	Sep	Oct	Nov	Dec
FAI (excluding rural households)	5.7	5.8	5.9	5.8	5.3	5.1
- Manufacturing sector	9.9	10.0	10.1	9.7	9.3	9.1
- Infrastructure (excluding power, heat, gas and water infrastructure)	7.4	8.3	8.6	8.7	8.9	9.4
- Real estate development	-6.4	-7.4	-8.0	-8.8	-9.8	-10.0

Source: National Bureau of Statistics, PRC

5. Fast growth in M2 and total outstanding RMB loans indicates credit easing

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a relatively fast pace recently, indicating an ease in credit conditions in China (see exhibit 8 & 9).

Exhibit 8: Broad money supply (M2) and RMB loans, February 2022 to January 2023

As of	Broad money supply (M2)		Total outstanding RMB loans	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-Feb 22	244.2	9.2%	197.9	11.4%
End-Mar	249.8	9.7%	201.0	11.4%
End-Apr	250.0	10.5%	201.7	10.9%
End-May	252.7	11.1%	203.5	11.0%
End-Jun	258.2	11.4%	206.4	11.2%
End-Jul	257.8	12.0%	207.0	11.0%
End-Aug	259.5	12.2%	208.3	10.9%
End-Sep	262.7	12.1%	210.8	11.2%
End-Oct	261.3	11.8%	211.4	11.1%
End-Nov	264.7	12.4%	212.6	11.0%
End-Dec	266.4	11.8%	214.0	11.1%
End-Jan 23	273.8	12.6%	219.8	11.3%

Source: People's Bank of China

It is expected that massive infrastructure investment will continue in 2023, while investment in the dampened real estate sector will stabilize.

Exhibit 9: Increase in RMB loans, 2021 to Jan 2023

Increase in RMB loans (trillion yuan)	
FY21	19.95
FY22	21.31
Feb 22	1.23
Mar	3.13
Apr	0.65
May	1.89
Jun	2.81
Jul	0.68
Aug	1.25
Sep	2.47
Oct	0.62
Nov	1.21
Dec	1.40
Jan 23	4.90

Source: People's Bank of China

The People's Bank of China (PBoC) has continued to take actions to maintain reasonable and sufficient liquidity in the banking system. On 5 December, it cut the required reserve ratios (RRRs) for all commercial banks by 25 basis points (except for those that have already implemented an RRR of 5%) to free up 500 billion yuan in long-term liquidity.

At a meeting on 20 December chaired by Yi Gang, Governor of the PBoC, the central bank reiterated the policy stance of carrying out a prudent monetary policy which is targeted and effective. The central bank will maintain reasonable and sufficient liquidity, and keep the growth rate of the money supply and social financing scale basically in line with the nominal economic growth rate. It vowed to leverage monetary policy tools to support a recovery in consumption and the construction of infrastructure and major projects. It will also guide financial institutions to increase support for agricultural and rural development, technological innovation, green development, and mergers and acquisitions in the property sector.²

China will continue to avoid broad-based monetary easing due to worries over high debt and capital outflows, in our view.

² <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4742891/index.html>

6. PMI indicates a recovery in manufacturing sector in January

China's manufacturing PMI rebounded from a nearly three-year low of 47.0 in December to 50.1 in January (see *exhibit 10*). The headline PMI reading has returned to the expansionary territory lately, indicating a recovery in the manufacturing sector.

The new orders index surged by 7.0 pts to 50.9 in January, returning to the expansionary zone after a six-month contraction. On the back of the improvement in the overall market demand, manufacturing output has stabilized lately: The output index jumped by 5.2 pts to a four-month high of 49.8 in January.

Prices of industrial products have continued to drop recently: The ex-factory prices index went down from 49.0 in December to 48.7 in January. Meanwhile, the input prices index increased further to 52.2 in January from 51.6 in December, indicating a rise in the prices of production inputs lately.

The business expectations index jumped from 51.9 in December to a ten-month high of 55.6 in January, indicating that purchasing managers in China have become more optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI picked up to 50.1 in January, indicating a recovery in the manufacturing sector. Production activities stabilized amid an increase in new orders. Prices of industrial products continued to fall, despite a rise in prices of production inputs.

Exhibit 10: China's manufacturing PMI at a glance, January 2023

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	50.1	Lower ▼	Expanding
Output	49.8	Higher ▲	Contracting
New Orders	50.9	Higher ▲	Expanding
New Export Orders	46.1	Higher ▲	Contracting
Backlogs of Orders	44.5	Higher ▲	Contracting
Stocks of Finished Goods	47.2	Higher ▲	Contracting
Stocks of Major Inputs	49.6	Higher ▲	Contracting
Purchases of Inputs	50.4	Higher ▲	Expanding
Imports	46.7	Higher ▲	Contracting
Input Prices	52.2	Higher ▲	Rising
Ex-factory Prices	48.7	Lower ▼	Falling
Employment	47.7	Higher ▲	Contracting
Suppliers' Delivery Time	47.6	Higher ▲	Slowing
Business Expectations	55.6	Higher ▲	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

7. NMI indicates a recovery in non-manufacturing sector in January

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), rebounded from a nearly three-year low of 41.6 in December to 54.4 in January (see *exhibit 11*). The latest index reading indicates a strong recovery in the non-manufacturing sector.

The new orders index rose to a seven-month high of 52.5 in January, indicating an expansion in new orders lately.

The sales prices index has remained below the neutral level of 50 since April, meaning that enterprises have continued to lower their service charges recently. Meanwhile, the input prices index rose above 50 and registered 51.5 in January, indicating that input prices have started to increase lately.

The business expectation index surged from 53.7 in December to 64.9 in January, the first time the index has topped 64.0 since February 2021, suggesting that purchasing managers in the non-manufacturing sector have become more optimistic about the near-term outlook for their respective industries.

We expect that China's non-manufacturing sector will continue to expand and that the NMI will stay high in the coming months amid the near-end of the COVID-19 pandemic in the country.

Exhibit 11: China's Non-manufacturing Purchasing Managers' Index (NMI) at a glance, January 2023

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	54.4	Higher ▲	Expanding
New orders	52.5	Higher ▲	Expanding
Input prices	51.5	Higher ▲	Rising
Sales prices	48.3	Higher ▲	Rising
Business expectations	64.9	Higher ▲	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

B. Highlights

1. Central Economic Work Conference lays out economic agenda for 2023

The Central Economic Work Conference, a meeting which sets the tone for the economic tasks this year, was held on 15-16 December 2022. According to a statement released after the meeting, economic work this year would prioritize stability while pursuing progress. It put expanding domestic demand at the top of this year's economic agenda and highlighted prioritizing consumption recovery and growth.³

The meeting reiterated the policy stance of carrying out a proactive fiscal policy and a prudent monetary policy. The proactive fiscal policy should be stepped up for its effectiveness, with a better mix of tools including fiscal deficits, special-purpose bonds and interest subsidies. The prudent monetary policy should be targeted and effective, with reasonable and sufficient liquidity to be maintained and stronger support from financial institutions for micro and small businesses, technological innovation and green development.

2. China issues guideline and action plan on expanding domestic demand

On 14 December, the Communist Party of China Central Committee and the State Council jointly released a guideline on expanding domestic demand and fostering a sound domestic demand system to promote its long-term development. The long-term goals extending to 2035 include seeing the scale of consumption and investment hit new levels and fully establishing a sound domestic demand system, said the guideline.⁴

The next day, China's National Development and Reform Commission (NDRC) released an action plan to boost domestic demand during the 14th Five-Year Plan period (2021-25), which further details key tasks set by the above-mentioned guideline for expanding domestic demand.⁵

The NDRC vowed to accelerate the cultivation of a sound domestic demand system, and create new demand through innovation-driven and high-quality supply, so as to achieve a high-level dynamic equilibrium between supply and demand. The NDRC plans to promote and accelerate the upgrading of consumption, boosting consumption in areas such as the services sector (e.g., culture, tourism, elderly and childcare, healthcare, sports, etc.), O2O integration and low-carbon products. It plans to optimize investment structure, create new investment opportunities, and promote coordinated development between urban and rural areas so as to unleash potential demand. It also vowed to further deepen opening-up, promote common prosperity and enhance the security capacity in the areas of food and energy.

Wordings from the Central Economic Work Conference signal that a more expansionary macro policy will be adopted in 2023, which will help revive the Chinese economy, in our view.

³ <http://cpc.people.com.cn/BIG5/n1/2022/1217/c64094-32588820.html>

⁴ http://www.gov.cn/zhengce/2022-12/14/content_5732067.htm

⁵ https://www.ndrc.gov.cn/xxqk/zcfb/tz/202212/t20221215_1343551.html

Part Two: Foreign Trade

A. Recent developments

1. China's exports down 6.8% yoy in 4Q22 amid global economic slowdown

In 2022, China's exports rose 7.0% yoy to a record high of US\$3,593.6 billion, while its imports edged up by 1.1% yoy to US\$2,716.0 billion. However, China's export dropped by 6.8% yoy in 4Q22 amid the global economic slowdown. (See exhibits 12, 13 and 14)

With global growth slowing, we forecast that China's exports will record a high single-digit year-on-year decline in 1Q23.

Exhibit 12: China's quarterly foreign trade data, 1Q22 to 4Q22

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
FY22	3,593.6	7.0%	2,716.0	1.1%	877.6
1Q22	818.2	15.4%	664.2	10.6%	154.0
2Q22	907.0	12.2%	682.0	1.2%	225.0
3Q22	969.0	9.9%	702.4	0.6%	266.5
4Q22	899.4	-6.8%	667.4	-6.6%	232.0

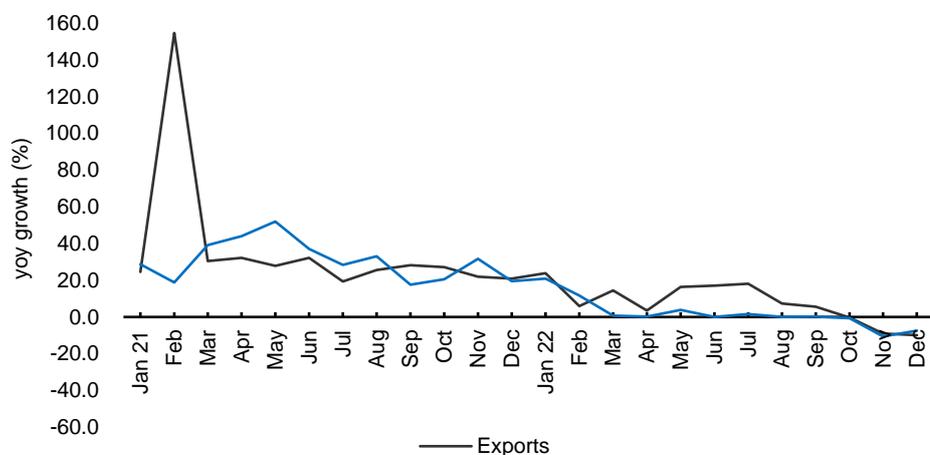
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, January to December 2022

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
January 22	326.5	23.9%	244.4	20.9%	82.1
February	216.7	6.0%	189.3	11.7%	27.5
March	275.0	14.4%	230.5	0.7%	44.5
April	272.4	3.5%	222.9	0.2%	49.4
May	306.4	16.4%	228.1	3.9%	77.3
June	328.2	17.1%	231.0	0.0%	97.3
July	332.3	18.1%	230.1	1.6%	102.2
August	315.0	7.4%	234.7	0.0%	80.3
September	321.7	5.6%	237.6	0.2%	84.0
October	298.1	-0.3%	213.2	-0.7%	84.9
November	295.2	-9.0%	226.1	-10.6%	69.1
December	306.1	-9.9%	228.1	-7.5%	78.0

Source: China Customs

Exhibit 14: Growth rates of exports and imports, January 2021 to December 2022



Source: China Customs

Exhibit 15: Exports by category, 2021 to 2022

<i>yoy growth (%) of export value, in USD</i>	2021	1Q22	1H22	1-3Q22	2022
Textile yarn, fabrics and textile products	-5.6	15.1	11.3	8.7	2.0
Garments and clothing accessories	24.0	7.4	12.0	9.4	3.2
Footwear	35.3	23.0	32.5	27.5	20.4
Toys	37.7	19.4	24.7	14.9	5.6
Furniture and parts	26.4	3.9	1.2	-2.1	-5.3
Lighting fittings and parts	31.2	-2.1	2.0	-2.8	-6.1
Suitcases and handbags	35.1	26.7	35.7	33.3	28.2
Refined oil	26.6	4.3	2.2	29.2	48.7
Steel	80.2	22.8	30.6	27.8	18.7
Mechanical and electrical products	28.9	12.1	9.6	8.7	3.6

Source: China Customs

Due mainly to a slowing external demand, exports of consumer goods such as toys (-17% yoy) and garments and clothing accessories (-14% yoy) experienced significant year-on-year drops in 4Q22.

Exhibit 16: Imports by category, 2021 to 2022

<i>yoy growth (%) of import value, in USD</i>	2021	1Q22	1H22	1-3Q22	2022
Soybeans	35.4	20.9	18.4	16.2	14.4
Iron ores	49.3	-34.8	-30.0	-31.9	-29.7
Crude oil	44.3	39.4	54.0	47.0	41.4
Steel	11.3	12.8	1.5	-2.0	-8.8
Textile yarn, fabrics and textile products	14.4	-9.1	-13.1	-20.3	-24.3
Vehicles and vehicle chassis	15.4	9.4	-1.2	-0.6	-1.2
Integrated circuits	23.6	14.6	6.4	1.5	-3.9
Plastics	16.5	-0.1	-6.2	-4.5	-12.2

Source: China Customs

2. ASEAN remains China's top trading partner in 2022

In 2022, the ASEAN was still China's largest trading partner and the US retained its status as China's largest export market (see exhibits 17 and 18). Also noteworthy is that South Korea has overtaken Japan as China's top trading partner country in Asia during the year.

Exhibit 17: China's trading partners, 2022

Country/Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
ASEAN	975.3	15.5	567.3	408.1	11.2	17.7	3.3
EU	847.3	13.4	562.0	285.4	2.4	8.6	-7.9
US	759.4	12.0	581.8	177.6	0.6	1.2	-1.1
South Korea	362.3	5.7	162.6	199.7	0.1	9.5	-6.5
Japan	357.4	5.7	172.9	184.5	-3.7	4.4	-10.2
Russia	190.3	3.0	76.1	114.1	29.3	12.8	43.4
Brazil	171.5	2.7	62.0	109.5	4.9	15.7	-0.4
India	136.0	2.2	118.5	17.5	8.4	21.7	-37.9

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2021 and 2022

Country/Region	yoy growth (%)					
	Total trade		Exports		Imports	
	2021	2022	2021	2022	2021	2022
ASEAN	28.1	11.2	26.1	17.7	30.8	3.3
EU	27.5	2.4	32.6	8.6	19.9	-7.9
US	28.7	0.6	27.5	1.2	32.7	-1.1
South Korea	26.9	0.1	32.4	9.5	23.3	-6.5
Japan	17.1	-3.7	16.3	4.4	17.7	-10.2
Russia	35.8	29.3	33.8	12.8	37.5	43.4
Brazil	36.2	4.9	53.4	15.7	29.2	-0.4
India	43.3	8.4	46.2	21.7	34.2	-37.9

Source: China Customs

In 2022, the ASEAN's share in China's trade increased by 1.0 percentage points compared with 2021, the largest rise among China's major trading partners. This was due partly to the implementation of the Regional Comprehensive Economic Partnership (RCEP) since January 2022, which pushed the supply chains of the two economies even closer.

3. COVID-19 drags down export growth of Guangdong and Shanghai in 2022

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 73.4% of China's total exports in 2022, down from 74.7% in 2021 (see *exhibit 19*). Among the top six provinces and municipalities, Guangdong and Shanghai registered the lowest growth due to local COVID-19 outbreaks in March and April to May, respectively.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 2022

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	888.6	-1.2	24.7
Jiangsu	543.7	7.7	15.1
Zhejiang	498.1	8.6	13.9
Shandong	327.0	15.0	9.1
Shanghai	207.0	2.3	5.8
Fujian	173.6	10.4	4.8

Source: China Customs

4. Rise in FDI indicates confidence in China's long-term prospects

China's foreign direct investment (FDI) increased by 6.3% yoy to 1,232.7 billion yuan (US\$189.1 billion, up by 8.0% yoy in US dollar terms) in 2022 (see *exhibit 20*).

Exhibit 20: China's FDI, 2021 to 2022

	Amount (billion yuan)	Yoy growth	Ytd amount (billion yuan)	Year-to-date, yoy growth
FY21	1,149.4	14.9%	1,149.4	14.9%
FY22	1,232.7	6.3%	1,232.7	6.3%
January 2022	102.3	11.6%	102.3	11.6%
February	141.4	66.1%	243.7	37.9%
March	136.2	8.3%	379.9	25.6%
April	98.7	4.4%	478.6	20.5%
May	85.6	2.0%	564.2	17.3%
June	159.1	25.4%	723.3	17.4%
July	75.0	16.6%	798.3	17.3%
August	94.4	10.0%	892.7	16.4%
September	111.0	9.4%	1,003.8	15.6%
October	86.1	2.9%	1,089.9	14.4%
November	66.2	-33.1%	1,156.1	9.9%
December	76.6	-28.5%	1,232.7	6.3%

Source: Ministry of Commerce, PRC

China is witnessing a new trend in foreign investment activities, with FDI in China's high-tech sector growing rapidly, which jumped by 28.3% yoy in 2022.

5. Chinese yuan appreciates against US dollar over past three months

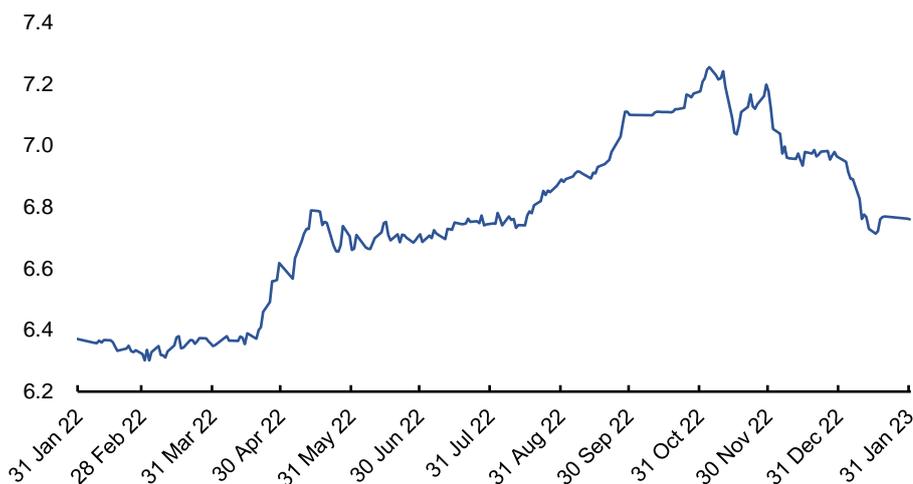
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from a 14-year low of 7.2555 on 4 November to 6.9646 on 30 December and further to 6.7604 on 31 January (see *exhibit 21*).⁶ The Chinese yuan depreciated by 8.5% against the US dollar in 2022 and appreciated by 3.0% so far this year (as of 31 January).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.0955 on 4 November to 7.4229 on 30 December, before rebounding to 7.3354 on 31 January (see *exhibit 22*). The Chinese yuan depreciated by 2.7% against the Euro in 2022 and appreciated by 1.2% so far this year (as of 31 January).

According to the Bank for International Settlements, the Chinese yuan depreciated in real terms against its trading partners by 3.7% in 4Q22 and by 7.9% in 2022 (see *exhibit 23*).

With a recovery in the Chinese economy and hopes of a slower pace of US interest rate rises, we expect the Chinese yuan to remain strong against the US dollar in the coming months.

Exhibit 21: USD-CNY daily fixing rate, January 2022 to January 2023



Source: State Administration of Foreign Exchange

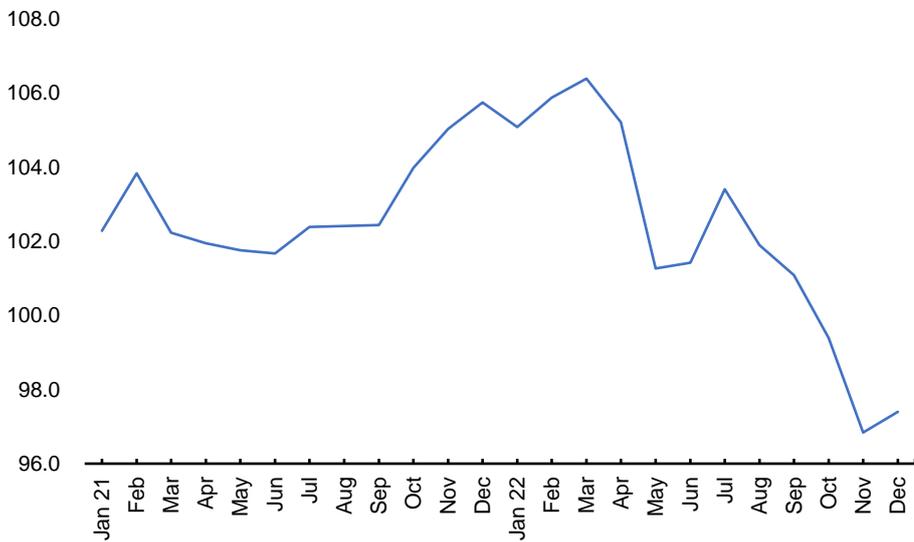
⁶ According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day and the movements of major international currencies.

Exhibit 22: EUR-CNY daily fixing rate, January 2022 to January 2023



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, January 2021 to December 2022



Source: Bank for International Settlements

B. Highlights

1. Nine regions identified as pilots for integration of domestic and foreign trade

On January 11, the Ministry of Commerce and other 13 departments issued a circular on the implementation of pilot programmes for the integrated development of domestic and foreign trade in selected regions, including Beijing, Shanghai, Jiangsu, Zhejiang, Fujian, Hunan, Guangdong, Chongqing, and Xinjiang.⁷

The move is aimed at clearing the institutional obstacles to the integration of domestic and foreign trade, helping market players make full use of the domestic and foreign markets and realizing the efficient operation of domestic and foreign trade. Specific tasks include pushing the alignment of rules, giving full play to the roles of free trade pilot zones and free trade ports, enhancing reforms and innovation, and promoting the effective connection of domestic and foreign trade rules. Efforts will be made to ensure that production lines, product standards and quality are consistent among domestic and foreign trade products, and to reduce the cost of product interchange in domestic and foreign markets.

2. China cuts import tariffs on over 1,000 products

Effective from 1 January, China has reduced or cancelled import tariffs on 1,020 products, including certain raw materials for anti-cancer drugs, coffee machines, potash fertilizers and iridium oxide for fuel cells, medicines, etc. Moreover, starting on 1 July, China will make the eighth and final reduction on the Most-Favored-Nation (MFN) tariff rates on 62 kinds of information technology products. China's overall tariff level will fall from 7.4% to 7.3% after these tariff cuts.⁸

The integrated development of domestic and foreign trade will help promote a more self-reliant 'dual circulation' economic paradigm for long-term growth in the coming years.

These tariff cuts are in line with China's commitment of further lowering import tariffs and facilitating the import of high-quality goods and services.

⁷ http://www.gov.cn/zhengce/zhengceku/2023-01/11/content_5736299.htm

⁸ http://www.gov.cn/xinwen/2023-01/10/content_5735949.htm

C. Outlook

1. Both US and Eurozone economies register slower growth in 4Q22

The US's GDP growth eased to 1.0% yoy in 4Q22 as rising interest rates and still-high inflation weighed on demand (see *exhibit 24*). Meanwhile, the GDP growth of the Eurozone economy⁹ also slowed to 2.1% yoy in 4Q22. The Eurozone has been facing the economic fallout from the Russia—Ukraine conflict in addition to the rising inflation and interest rates (see *exhibit 25*).

We expect that both the US and Eurozone economies will slow further in 1Q23 amid high inflation and monetary tightening.

Exhibit 24: US real GDP growth, 2021 to 4Q22

	2021	2022	1Q22	2Q22	3Q22	4Q22
Real GDP (<i>annualized qoq growth %</i>)			-1.6	-0.6	3.2	2.9
Real GDP (<i>yoy growth %</i>)	5.9	2.1	3.7	1.8	1.9	1.0

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2021 to 4Q22

	2021	2022	1Q22	2Q22	3Q22	4Q22
Real GDP (<i>qoq growth %</i>)			0.6	0.9	0.3	0.1
Real GDP (<i>yoy growth %</i>)	5.2	3.5	5.5	4.3	2.3	1.9

Source: Eurostat, IMF

⁹ Up to 31 December 2022, the Eurozone included Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. From 1 January 2023 the Eurozone also includes Croatia.

2. IMF projects slow growth for world economy in 2023

In the *World Economic Outlook Update* released in January, the IMF revised upwards its growth forecast for the global economy in 2023 from 2.7% to 2.9%, still below the historical annual average of 3.8%. The primary reasons behind the latest revisions are lower commodity prices, unexpected resilience in the US economy, and the full reopening of China (see exhibit 26).

Further monetary tightening in advanced economies and a possible escalation in the Russia–Ukraine conflict are the biggest risks to the global economy in 2023.

Exhibit 26: Latest GDP growth estimates and forecasts by the IMF (2022 to 2024)

	yoy growth (%)		
	2022 (Estimates)	2023 (Forecasts)	2024 (Forecasts)
World economy	3.4	2.9	3.1
Advanced economies	2.7	1.2	1.4
- US	2.0	1.4	1.0
- Eurozone	3.5	0.7	1.6
- Japan	1.4	1.8	0.9
- UK	4.1	-0.6	0.9
Emerging market and developing economies	3.9	4.0	4.2
- China	3.0	5.2	4.5
- India*	6.8	6.1	6.8
- Brazil	3.1	1.2	1.5
- Russia	-2.2	0.3	2.1

* Data and forecasts are presented on a fiscal year basis.

Source: *World Economic Outlook Update* released in January 2023, IMF

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

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